

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2
3 COMMISSIONERS

4 MARC SPITZER, Chairman
5 JIM IRVIN
6 WILLIAM A. MUNDELL
7 JEFF HATCH-MILLER
8 MIKE GLEASON
9 KRISTIN K. MAYES

10 In the matter of:)	DOCKET NO. S-03523A-03-0000
11 INTERNATIONAL GLOBAL POSITIONING,)	
12 INC., a Nevada corporation)	NOTICE OF OPPORTUNITY FOR
13 720 Brazos Street, Suite 500)	HEARING REGARDING PROPOSED
14 Austin, TX 78701)	ORDER TO CEASE AND DESIST, FOR
15 JOHN J. MADSEN)	RESTITUTION, FOR ADMINISTRATIVE
16 11801 W HWY 71)	PENALTIES, OF REVOCATION AND/OR
17 Austin TX 78738)	SUSPENSION, AND FOR OTHER
18 MICHAEL J. COKER)	AFFIRMATIVE ACTION
19 11801 W. HWY 71)	
20 Austin, TX 78738)	
21 JAMES W. DREOS, individually and dba DREOS)	
22 FINANCIAL SERVICES, and JANE DOE)	
23 DREOS, husband and wife)	
24 10201 E. North Ranch Gate Road)	
25 Scottsdale, AZ 85255)	
26 CRD# 802681)	
27 EDMOND L. LONERGAN and JANE DOE)	
28 LONERGAN, husband and wife)	
29 16126 East Powderhorn Drive)	
30 Fountain Hills, AZ 85268)	
31 CORPORATE ARCHITECTS, INC., a Nevada)	
32 corporation)	
33 8360 East Via de Ventura, Suite L-200)	
34 Scottsdale, AZ 85258)	
35 Respondents.)	

36 **NOTICE: EACH RESPONDENT HAS 10 DAYS TO REQUEST A HEARING**

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1 First, between mid-1994 and mid-1998 originating elsewhere and
2 continuing within the District of Arizona, the defendant made up a
3 scheme or plan for obtaining money or property by making false
promises or statements;

4 Second, the defendant knew that the promises or statements were false;

5 Third, the promises or statements were material, that is, they would
reasonably influence a person to part with money or property;

6 Fourth, the defendant acted with the intent to defraud; and

7 Fifth, the defendant used, or caused to be used, the mails to carry out
8 or attempt to carry out an essential part of the scheme.

9 *United States of America v. John J. Madsen*, Plea Agreement, CR-01-1010-PHX-SRB, U.S.
10 District Court, District of Arizona, lodged on November 5, 2001.

11 4. COKER was at all pertinent times President and Chief Executive Officer of IGP, residing at
12 15634 S. 6th Place, Phoenix, AZ 85048. COKER'S last known address is 11801 W. HWY 71,
13 Austin, TX 78738. COKER signed all stock certificates and warrants to purchase common stock
14 issued by IGP to investors, and all correspondence relating to the investments, as President and/or
15 President/CEO of IGP.

16 5. DREOS was at all pertinent times a registered securities salesman in Arizona, since January 7,
17 1992, CRD# 802681. DREOS'S last known address is 10201 E. North Ranch Gate Road,
18 Scottsdale, AZ 85255. DREOS was registered as a securities salesman in Arizona in association with
19 American General Securities, Inc. ("AGSI") from November 8, 2001, until he was discharged on or
20 about September 12, 2002. All allegations contained in this Notice of Opportunity for Hearing
21 occurred while DREOS was registered with AGSI.

22 6. From on or about October 9, 2002 until on or about March 25, 2003, DREOS was registered
23 as a securities salesman in association with Fox & Company Investments Inc. Pursuant to A.R.S. § 44-
24 1949, DREOS'S registration as a securities salesman in Arizona was automatically suspended on the
25 date of his termination with Fox & Company Investments Inc., on or about October 9, 2002. Since that
26 date, DREOS has not been registered with any securities dealer. Therefore, pursuant to A.R.S. § 44-

1 1947(B), DREOS'S registration expired on December 31, 2002. The Commission has the statutory
2 authority pursuant to A.R.S. § 44-1963(D) and A.R.S. § 44-1947(D), to bring this action to suspend
3 or revoke DREOS'S registration as an Arizona securities salesman within two years after the termination
4 or lapse of his registration.

5 7. DREOS was at all pertinent times licensed with the Arizona Department of Insurance as an
6 insurance salesman, authorized to sell accident, health, and life insurance, and variable life and annuities
7 products. DREOS'S authority to sell variable life and annuities products expired on September 30,
8 2003. DREOS'S authority to sell accident, health, and life products is current until September 30,
9 2005.

10 8. ESTHER DREOS was at all pertinent times the spouse of DREOS. ESTHER DREOS is
11 joined in this action under A.R.S. § 44-2031(C) solely for purposes of determining the liability of the
12 marital community.

13 9. At all pertinent times, DREOS was acting for his own benefit, and for the benefit or in
14 furtherance of the marital community.

15 10. LONERGAN'S last known address is 16126 East Powderhorn Drive, Fountain Hills, AZ
16 85268. LONERGAN is an officer and director of CAI.

17 11. JANE DOE LONERGAN was at all pertinent times the spouse of LONERGAN. JANE DOE
18 LONERGAN is joined in this action under A.R.S. § 44-2031(C) solely for purposes of determining the
19 liability of the marital community.

20 12. At all pertinent times, LONERGAN was acting for his own benefit, and for the benefit or in
21 furtherance of the marital community.

22 13. CAI was at all pertinent times a Nevada corporation, operating in Scottsdale, Arizona. CAI's
23 last known address is 8360 East Via de Ventura, Suite L-200, Scottsdale, AZ 85258.

24 14. IGP, MADSEN, COKER, DREOS, LONERGAN, and CAI may be collectively referred to as
25 "RESPONDENTS." ESTHER DREOS and JANE DOE LONERGAN may be referred to as
26 RESPONDENT SPOUSES.

1 15. LONERGAN and CAI may be referred to as “LONERGAN”.

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3 **III.**

4 **FACTS**

5 16. IGP purported to market a global positioning device that, mounted in an automobile, could
6 communicate through a satellite, on a cellular communications technology, information including where it
7 was located, its speed and direction. IGP’s plan was to sell stock to private investors and distributorship
8 franchises nationwide to market the device. In or around July 2001, IGP initiated a stock offering,
9 represented as a private placement under federal Rule 506, Regulation D.

10 17. In or around October 2001, MADSEN formed an association with DREOS, who was interested
11 in selling “key-man” life insurance to the principals of IGP, and LONERGAN, who was interested in
12 assisting IGP in its efforts to take the company’s stock public in an initial public offering.

13 18. DREOS offered to assist IGP in its efforts to raise private investor funds by referring his
14 insurance customers to purchase stock in IGP’S private offering, on the condition that the principals of
15 IGP would purchase key-man insurance from him, for which DREOS would earn substantial
16 commissions.

17 19. Beginning in or around November 2001, DREOS initiated contacts with his insurance clients for
18 the purpose of inducing them to contact MADSEN for the purchase of IGP private placement stock.

19 20. DREOS invited prospective investors to meetings with MADSEN, who made representations
20 concerning plans for taking IGP public as early as January 2002, and promised substantial potential profit
21 for private investors from trading IGP stock in the public market. LONERGAN assisted in some of
22 these presentations, and spoke optimistically of IGP’S imminent plans to take the company into the public
23 market.

24 21. One of Respondents’ inducements for investors to purchase stock in IGP’S private offering was
25 that private investors would receive warrants to purchase IGP stock in an initial public offering. Investors
26 were told that when the company went public, they would have the opportunity to purchase IGP stock

1 for the reduced price that they paid for their private placement stock, and to resell the stock they
2 purchased in the initial public offering at one and one-half times its original purchase price, thereby
3 recouping the original purchase price of their privately-held stock.

4 22. From about November 2001 through April 2002, through the efforts of Respondents,
5 approximately 33 investors, mostly Arizona residents, invested \$546,500 in IGP private placement stock.

6 23. Although the IGP Offering Memorandum stated that the offering was "For Accredited Investors
7 Only," several of the investors were not "accredited" as that term is defined under federal and state
8 securities laws.

9 24. Some investors did not receive IGP private placement memoranda, or meaningful disclosure of
10 material information about IGP and its principals, prior to investing.

11 25. To this date, IGP is not listed on any public exchange, and the investors have received no return
12 on their investments.

13 26. Upon information and belief, DREOS, knowing that his dealer prohibited his participation in
14 raising venture capital or receiving commissions on the sale of securities that were not approved by his
15 dealer, and that such conduct would result in termination of his employment with AGSI, instructed IGP to
16 pay any compensation resulting from his efforts to raise investor funds to CAI. DREOS drafted a
17 consulting agreement with CAI, whereby DREOS would receive consulting fees from CAI, ostensibly for
18 "Marketing and advertising materials."

19 27. On or about December 20, 2001, IGP paid CAI approximately \$40,000 as commissions for
20 investor funds raised from clients referred by DREOS. On or about December 20, 2001, CAI paid
21 DREOS approximately \$20,000, 50% of the commissions IGP paid to CAI, ostensibly as "consulting
22 fees."

23 28. From late January 2002 through early March 2002, AGSI paid DREOS approximately
24 \$209,000 in commissions, on the sales of variable life insurance policies to MADSEN and COKER.
25 The policies lapsed in October 2002, due to failure to pay large premiums. When the policies lapsed, the
26 companies that issued the policies charged back to AGSI the total amount of commissions paid to

1 DREOS for the MADSEN and COKER policies. Upon information and belief, DREOS paid back only
2 \$16,770 of the debt owed to AGSI, which AGSI retired, prior to AGSI'S termination of DREOS, by
3 set-offs against commissions DREOS earned from life insurance companies affiliated with AGSI.

4 29. Upon information and belief, on or about December 12, 2001, DREOS took one of his
5 customers to a meeting with MADSEN, where the customer invested \$50,000 in IGP stock. After that
6 meeting, DREOS borrowed \$25,000 from that customer to purchase IGP stock for himself. DREOS'S
7 customer was also a client of AGSI. The customer was not a relative of DREOS, or in the business of
8 lending funds. At the time that he received the borrowed funds, DREOS told the customer that he would
9 repay him in two weeks. As of May 2003, DREOS still had not repaid the customer.

10 30. DREOS'S participation in the sale of IGP stock was not approved by his dealer, AGSI.

11 31. Upon information and belief, in or around April 2002, DREOS borrowed \$15,000 from another
12 client, whose spouse was also a customer of AGSI, to purchase the Arizona distributorship for marketing
13 the IGP global positioning device.

14 32. On or around September 12, 2002, AGSI terminated DREOS for failing to follow the firm's
15 outside business activity policy, specifically for failing to disclose and obtain prior written permission as
16 required by the firm in connection with his acting as a consultant and for purchasing a distributorship,
17 related to his conduct with CAI and IGP.

18 33. On or about October 18, 2002, responding to the Division's request for a detailed explanation of
19 his conduct with respect to the matters reported on his U-4 reported on the CRD system, in connection
20 with his application to affiliate with a new dealer as a securities salesman in Arizona, DREOS provided a
21 written statement to the Division in which he failed to disclose that he assisted IGP in raising funds from
22 the sale of stock by referring his insurance clients to IGP and MADSEN.

23 . . .

24 **IV.**

25 **VIOLATION OF A.R.S. § 44-1841**

26 **(Offer or Sale of Unregistered Securities)**

34. From on or about April 1999 to in or around May 2002, RESPONDENTS offered or sold securities in the form of stock, within or from Arizona.

35. The securities referred to above were not registered pursuant to the provisions of Articles 6 or 7 of the Securities Act.

36. This conduct violates A.R.S. § 44-1841.

37. MADSEN and COKER directly or indirectly controlled IGP within the meaning of A.R.S. § 44-1841. Therefore, MADSEN and COKER are liable to the same extent as IGP for its violations of A.R.S. § 44-1991, pursuant to A.R.S. § 44-1999(A).

38. LONERGAN directly or indirectly controlled CAI within the meaning of A.R.S. § 44-1999. Therefore, LONERGAN is liable to the same extent as CAI for its violations of A.R.S. § 44-1841, pursuant to A.R.S. § 44-1999(A).

39. RESPONDENTS participated in or induced the sales of securities within the meaning of A.R.S. § 44-2003(A). Therefore, RESPONDENTS are jointly and severally liable for violations of A.R.S. § 44-1841.

V.

VIOLATION OF A.R.S. § 44-1842

(Transactions by Unregistered Dealers or Salesmen)

40. RESPONDENTS IGP, MADSEN, COKER, LONERGAN, and CAI offered or sold securities within or from Arizona, while not registered as dealers or salesmen pursuant to the provisions of Article 9 of the Securities Act.

41. This conduct violates A.R.S. § 44-1842.

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VI.

VIOLATION OF A.R.S. § 44-1991

(Fraud in Connection with the Offer or Sale of Securities)

42. In connection with the offer or sale of securities within or from Arizona, RESPONDENTS directly or indirectly: (i) employed a device, scheme or artifice to defraud; (ii) made untrue statements of material fact or omitted to state material facts which were necessary in order to make the statements made not misleading in light of the circumstances under which they were made; and/or (iii) engaged in transactions, practices or courses of business which operated or would operate as a fraud or deceit upon offerees and investors. RESPONDENTS' conduct includes, but is not limited to, the following:

a) Misrepresenting and/or failing to adequately disclose the risks of the investment, including the potential for the company to trade its stock in the public market;

b) Failing to adequately disclose the financial condition of IGP;

c) Failing to disclose and/or misrepresenting the specific uses of investor funds;

d) Failing to disclose the background and track record of IGP and its principals, in particular, that in November 2001, MADSEN, the Director of Sales and Marketing for IGP, pled guilty to mail fraud, a felony involving a scheme or plan for obtaining money or property by making false promises or statements with the intent to defraud.

43. This conduct violates A.R.S. § 44-1991.

44. MADSEN and COKER directly or indirectly controlled IGP within the meaning of A.R.S. § 44-1999. Therefore, MADSEN and COKER are liable to the same extent as IGP for its violations of A.R.S. § 44-1991, pursuant to A.R.S. § 44-1999(B).

45. LONERGAN directly or indirectly controlled CAI within the meaning of A.R.S. § 44-1999. Therefore, LONERGAN is liable to the same extent as CAI for its violations of A.R.S. § 44-1991, pursuant to A.R.S. § 44-1999(B).

46. RESPONDENTS participated in or induced the sales of securities within the meaning of A.R.S. § 44-2003(A). Therefore, RESPONDENTS are jointly and severally liable for violations of A.R.S. § 44-1991.

VII.

REMEDIES PURSUANT TO A.R.S. § 44-1962

(Denial, Revocation or Suspension of Registration of Salesman)

47. DREOS'S conduct is grounds to revoke or suspend DREOS'S registration as a securities salesman with the Commission pursuant to A.R.S. § 44-1962. Specifically, DREOS has:

a) Violated §§ 44-1841 and 44-1991 of the Securities Act within the meaning of A.R.S. § 44-1962(A)(2), by offering and selling unregistered securities and failing to disclose material facts in connection with the sale of those securities.

b) Engaged in dishonest or unethical practices within the meaning of A.R.S. § 44-1962(10) as defined by A.A.C. R14-4-130(A)(2), by representing that securities will be listed, or that application for listing will be made on a securities exchange or the National Association of Securities Dealers Automated Quotation (NASDAQ) system or other quotation system without reasonable basis in fact for the representation.

c) Engaged in dishonest or unethical practices within the meaning of A.R.S. § 44-1962(10) as defined by A.A.C. R14-4-130(A)(15), by borrowing money from a customer, who was not a relative of DREOS or a person in the business of lending funds.

d) Engaged in dishonest or unethical practices within the meaning of A.R.S. § 44-1962(10) as defined by A.A.C. R14-4-130(A)(17), by selling securities that were not recorded on the records of AGSI, the dealer with whom he was registered at the time of the transactions.

VIII.

REQUESTED RELIEF

The Division requests that the Commission grant the following relief against RESPONDENTS:

1. Order RESPONDENTS to permanently cease and desist from violating the Securities Act, pursuant to A.R.S. §§ 44-2032;

2. Order RESPONDENTS to take affirmative action to correct the conditions resulting from their acts, practices or transactions, including a requirement to make restitution pursuant to A.R.S. §§ 44-2032;

3. Order RESPONDENTS to pay the state of Arizona administrative penalties of up to five thousand dollars (\$5,000) for each violation of the Securities Act, pursuant to A.R.S. § 44-2036;

4. Order DREOS to permanently cease and desist from violating the Securities Act, pursuant to A.R.S. § 44-1962;

5. Order the revocation or suspension of DREOS'S registration as a securities salesman pursuant to A.R.S. § 44-1962;

6. Order that the marital communities of RESPONDENT DREOS and ESTHER DREOS, and RESPONDENT LONERGAN and JANE DOE LONERGAN be subject to any order of restitution, rescission, administrative penalties, or other appropriate affirmative action pursuant to A.R.S. § 25-215; and

7. Order any other relief that the Commission deems appropriate.

IX.

HEARING OPPORTUNITY

RESPONDENTS including RESPONDENT SPOUSES may request a hearing pursuant to A.R.S. § 44-1972 and A.A.C. R14-4-306. **If any RESPONDENT requests a hearing, the RESPONDENT must also answer this Notice.** A request for hearing must be in writing and received by the Commission within 10 business days after service of this Notice of Opportunity for Hearing. Each RESPONDENT and RESPONDENT SPOUSE must deliver or mail the request to Docket Control, Arizona Corporation Commission, 1200 W. Washington, Phoenix, Arizona 85007. A Docket Control cover sheet must accompany the request. A cover sheet form and instructions may be obtained from Docket Control by calling (602) 542-3477 or on the Commission's Internet web site at www.cc.state.az.us/utility/forms/index.htm.

If a request for a hearing is timely made, the Commission shall schedule the hearing to begin 20 to 60 days from the receipt of the request unless otherwise provided by law, stipulated by the parties, or ordered by the Commission. If a request for a hearing is not timely made, the Commission may, without

1 a hearing, enter an order against each RESPONDENT and RESPONDENT SPOUSE granting the relief
2 requested by the Division in this Notice of Opportunity for Hearing.

3 Persons with a disability may request a reasonable accommodation such as a sign language
4 interpreter, as well as request this document in an alternative format, by contacting Yvonne L. McFarlin,
5 Executive Assistant to the Executive Secretary, voice phone number 602/542-3931, e-mail
6 ymcfarlin@cc.state.az.us. Requests should be made as early as possible to allow time to arrange the
7 accommodation.

8 **X.**

9 **ANSWER REQUIREMENT**

10 Pursuant to A.A.C. R14-4-305, if any RESPONDENT or RESPONDENT SPOUSE requests
11 a hearing, such RESPONDENT or RESPONDENT SPOUSE must deliver or mail an Answer to this
12 Notice of Opportunity for Hearing to Docket Control, Arizona Corporation Commission, 1200 W.
13 Washington, Phoenix, Arizona 85007, within 30 calendar days after the date of service of this Notice of
14 Opportunity for Hearing. A Docket Control cover sheet must accompany the Answer. A cover sheet
15 form and instructions may be obtained from Docket Control by calling (602) 542-3477 or on the
16 Commission's Internet web site at www.cc.state.az.us/utility/forms/index.htm.

17 Additionally, such RESPONDENT or RESPONDENT SPOUSE must serve the Answer upon
18 the Division. Pursuant to A.A.C. R14-4-303, service upon the Division may be made by mailing or by
19 hand-delivering a copy of the Answer to the Division at 1300 West Washington, 3^d Floor, Phoenix,
20 Arizona, 85007, addressed to Pamela Johnson.

21 The Answer shall contain an admission or denial of each allegation in this Notice and the original
22 signature of each RESPONDENT, RESPONDENT SPOUSE or RESPONDENT/RESPONDENT
23 SPOUSE'S attorney. A statement of a lack of sufficient knowledge or information shall be considered a
24 denial of an allegation. An allegation not denied shall be considered admitted.

25 When a RESPONDENT or RESPONDENT SPOUSE intends in good faith to deny only a part
26 or a qualification of an allegation, such RESPONDENT or RESPONDENT SPOUSE shall specify that

1 part or qualification of the allegation and shall admit the remainder. Each RESPONDENT or
2 RESPONDENT SPOUSE waives any affirmative defense not raised in the answer.

3 The officer presiding over the hearing may grant relief from the requirement to file an Answer for
4 good cause shown.

5 Dated this 18 day of November, 2003.

6
7 /s/ Matthew J. Neubert
8 Matthew J. Neubert
9 Acting Director of Securities
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